

## **Questions and Answers**

### **Regarding Governor Murkowski's State of the State and Conference of Alaskans initiatives.**

#### **1. Why did the Governor call for a Conference of Alaskan leaders to address whether to use a portion of the Permanent Fund income to maintain essential public services in his State of the State speech?**

During his State of the State speech on January 13, 2004, Governor Murkowski reported on the four elements of his fiscal plan on which he had been working since taking office: (i) obtain new revenue from natural resource development; (ii) control state spending; (iii) local responsibility; and (iv) user fees. At the State of the State speech he announced a fifth element – potential use of a portion of the income from the Permanent Fund to maintain essential public services.

Governor Murkowski called for a Conference of Alaskans to bring focus to this fifth element. In his State of the State address the Governor said Alaskans are in the position to choose between two very different fiscal paths. He said, “One is the easy road – avoid the issue, do nothing and wait. The other is the course I propose.” The Conference of Alaskans is a way to bring knowledgeable, thoughtful Alaskans together to provide clear advice on what role Permanent Fund income should play in Alaska's future. The Governor said that it is not his place to dictate that role, but rather to facilitate providing the Legislature the best thinking of Alaskans so that the Legislature can put the issue on the November 2004 ballot for a vote by all Alaskans.

Specifically, the Governor is asking the Conference:

- Should the use of income from the Permanent Fund be limited by the Constitution to five percent (5%) of the Fund's value, as the Permanent Fund Trustees have proposed?
- Should a portion of the income of the Permanent Fund be used for essential state services, like education?
- Should the use of the income of the Permanent Fund for dividends and possibly for other purposes be determined annually by the Legislature, as is currently the case, or dedicated in the Constitution?
- Should the state maintain a minimum balance in the Constitutional Budget Reserve to stabilize state finances against fluctuation in oil production or prices?

Like the Statehood Convention a half-century ago, the Governor believes the issue before the state is of monumental importance to all Alaskans. The

Conference of Alaskans is intended to put the spotlight on the issue and its surrounding debate and discussion to assist Alaskans to better understand the proposals being put forward.

## **2. How much will this event cost?**

The intention of the Governor is to hold expenses to a minimum. The Conference conveners have been in contact with former delegates to the Alaska constitutional convention as well as officials from the University. It is the state's intention to keep costs down by using University facilities, buses, etc., and volunteers. The delegates will not be paid for their services. The conveners will report the total costs to the public and the Conference will be subject to the state's strict procurement standards. Funding for the Conference will come out of the current Governor's office budget account. No money will be taken from any public service. Conference costs are currently estimated to be about \$274,000 — or about 45 cents per Alaskan, with the majority of the cost going for delegate travel, food and lodging. Every effort will be made to reduce these costs.

## **3. How can the state justify spending money on this when the state has fiscal problems and is cutting programs?**

The Governor has asked that the Conference costs be kept to the minimum. The Conference was established to get a result — and it's necessary to make an investment in order to get a return. The Governor believes it is worth the cost to get a broad-based recommendation from a knowledgeable, bipartisan group of Alaskans on one of the major decisions that will face the state in this decade. He considers it to be a small amount when compared to the issues at stake and the potential impacts upon Alaska society.

## **4. Why isn't the Legislature just addressing these issues directly? Is the Governor trying to box in the Legislature?**

Given the different schedules and priorities of each body, the Governor is concerned that this issue will keep being pushed back and will be intermixed with the budget and other issues the Legislature must address. If that occurs, the issues referred to the Conference may not get the attention they deserve. Governor Murkowski said this issue needs the single focus and early attention a March 1<sup>st</sup> Special Session of the Legislature will bring.

The Legislature also needs answers/advice to help these questions. The administration has no intention of "boxing" in the Legislature or dictating to it. The final decision on whether to place a Constitutional amendment before voters still belongs to the Legislature. Likewise, the authority of the Legislature to tax and to place a Constitutional Spending Limit on the ballot is in no way hindered by the Conference. The public, the Legislature and the Governor can

benefit from the collective advice of thoughtful Alaskans in response to the questions posed to the Conference by the Governor.

**5. The chair and conveners are being asked to select delegates that represent Alaskans, however, none of them were elected. How can the Governor assure a representative group?**

In other volunteer work, the chair and many of the conference conveners have spent countless hours working with Alaskans to try to build a consensus on some type of a fiscal plan. Some of the members served in elected office. Some have served and are serving as Permanent Fund Trustees. The Governor has called for statewide representation from all walks of life – people who will work to build a consensus that all Alaskans can respect. Finally, the Governor is proud of the many individual Alaskans who are not elected that have made a major contribution to community decisions and to whom others look for advice and leadership.

**6. How can the Governor assure that the conveners will choose a nonpartisan conference?**

The Conference conveners themselves represent a cross section of political affiliation. Governor Murkowski has said the Republican, Democrat and non-partisan members have to work together in the best interest of all Alaskans to name nonpartisan members. It will be up to each Alaskan to assess whether these goals were met in the overall make-up of the Conference.

**7. How did the Governor determine whom to ask as the conveners? What makes these persons qualified?**

The Governor's objective in choosing the co-chairs was to choose Alaskans who had spent time wrestling with Permanent Fund issues and legislative budget issues. He chose people he believes understand and can follow through on his charge to the Conference: to answer the four questions and not to wander off into other issues. Please see the Governor's web page for biographical information on all of the Conference conveners.

**8. Why was Fairbanks chosen for this event? Would it not be less expensive in Anchorage?**

The decision to convene the Conference reflects the historic nature of the recommendations they are asked to make. The Governor said he could think of no place better than to convene the Conference at the site of the state's Constitutional Convention. Wisdom guided that Convention's 55 delegates to leave politics at the door and make decisions that were to the benefit of the state. The Governor said he is hopeful that by bringing Alaskans together at

the same site and with the same sense of common purpose, Alaska will achieve a similar result.

**9. Why is this Conference meeting taking place on such a short schedule?**

The Governor set an accelerated, highly publicized process to help capture Alaskans' attention and help them focus on the complex issues before the Legislature becomes enmeshed in the budget this legislative session.

Also, because the proposal to use a portion of the Permanent Fund income for public service requires a Constitutional amendment, voters would have to approve it in a general election. The Governor believes waiting for the 2006 election might be too late to maintain essential public services at existing levels.

**10. Does the Governor have the authority to call a Special Session during the regular session?**

The authority for Special Session is set out below:

“Special sessions may be called by the Governor or by vote of two-thirds of the legislators. The vote may be conducted by the legislative council or as prescribed by law. At special sessions called the Governor, legislation shall be limited to subjects designated in his proclamation calling the session, to subjects presented by him, and the consideration of bills vetoed by him after adjournment of the last regular session.”

-- *Alaska Constitution, Article II, Section 9.*

“Whenever the Governor considers it in the public interest, he may convene the legislature, either house, or the two houses in joint session.”

-- *Alaska Constitution, Article III, Section 17.*

The above powers are not limited in any way as to time and purpose – a court would likely defer to the judgment of the Governor as to whether his purpose satisfies the public interest.

**Permanent Fund**

**11. Shouldn't use of the Permanent Fund income be part of a “comprehensive plan”?**

The Governor has a five-point fiscal program, which he detailed in his State of the State Speech. The Governor made it clear that his program does not include an income tax. He believes the public needs to decide between some

use of the income of the Permanent Fund to maintain essential public services, or a significant decline in public services in FY 2006. Neither the Conference nor the questions referred to it preclude the Legislature from passing revenue measures such as user fees, taxes that the Governor or others have proposed.

**12. Explain how using a portion of the Permanent Fund income for government benefits Alaskans.**

Governor Murkowski said Alaska has to figure out how it wants to pay for public services. Most states use revenue from a state sales tax, income tax, or both. Alaska's population is so small that even at statehood Congress recognized that a state government could not be supported by these traditional means. As a result, Congress gave the state land that had significant natural resources so that its development could generate revenues to support state services.

In 1976, voters endorsed the Permanent Fund to create a source of annual income from one-time oil development for the day when oil production declined. With oil production today less than half of what it was at its peak, and the threat of significant erosion of public services because of continuing anticipated reductions in oil revenue, many Alaskans believe that day is now.

Governor Murkowski believes Alaskans need to understand that the state is now at the point where it either has to cut a quarter of what the state currently spends on services, or find another way to pay for them, if those services are to continue at current levels.

Governor Murkowski has said Alaskans need to consider two questions – what happens to their dividend if a portion of the Fund's income is used to maintain essential public services, AND what happens to their essential public services if it is not.

**13. Doesn't the Legislature already have the authority to appropriate a portion of the Permanent Fund income with just a simple majority vote? Why not just do that? Would it not be less expensive than the Conference?**

Yes, the Legislature currently has the authority to appropriate income and in fact, it does. Each year it appropriates income to pay dividends and inflation proof the Fund (neither is required by the Constitution). Income left over has been appropriated back into the Fund itself, or left in the Earnings Reserve Account for future distribution.

Some Alaskans may not realize that there currently is enough income to pay dividends and help support public services. As a result, there is a stigma that using even this left-over income for government is a "raid" on the dividend.

Some suggest that it will take a crisis (such as significant budget cuts) for the Legislature to believe it has “political permission” to use the left-over income to pay for public programs.

The Governor believes it is the responsibility of his Administration and the Legislature to explain why using a portion of the Permanent Fund is necessary to maintain levels of public services before such a crisis occurs.

**14. What economic impact would using a portion of the Permanent Fund income for public services have on the Alaskan economy? Won't using a portion of the Fund income for public services just create a bigger urban-rural divide?**

This will have minimal impacts on the Alaskan economy. If anything it will help over the long term by focusing more spending on things such as education.

The private sector would be expected to increase investment, which would grow the economy and create jobs for Alaskans. The uncertainty of how Alaska is going to balance its budget in the future has discouraged business from investing in Alaska.

Most of Alaska's natural resources are in rural Alaska and development of these resources will mean jobs in rural Alaska and a way to support these communities.

**15. How would using a portion of the Permanent Fund income for public services be fair to all Alaskans? Would an income tax be a fairer way to assess funds for public services?**

Traditional responsibilities of governments are called “public goods.” These are the things that individuals cannot efficiently do for themselves – such as build transportation infrastructure, provide homeland security, protect the environment, and maintain a quality education system. All Alaskans benefit from these public goods. Use of a portion of the Permanent Fund income to help pay for “public goods” would be to everyone's benefit. Moreover, it would add new money to our economy along with the beneficial multiplier effect which new money provides. An income tax simply recycles money that already is in Alaska's economy by redistributing wealth from hard-working Alaskans to government.

**16. The Trustees claim that the POMV concept will protect the Permanent Fund dividend; but how exactly is it protected?**

The Board of Trustees explains this very well. Percent of Market Value is a calculation method that is used by virtually all of the nation's major endowments (universities, etc.). It is also used by Anchorage and Sitka – communities that have Permanent Funds. In fact, it is required of non-profits by the IRS because it automatically ensures a steady income stream not subject to the dramatic ups and downs of the investment market. The Trustees believe this change would be similarly beneficial to the Permanent Fund.

Changing the calculation of how much income is available ensures there is income each year to pay whatever is decided the income should be used for. In fact, the current practice of relying on realized income actually jeopardizes a consistent dividend. Because of poor earnings of stock investments in recent years, early in 2003 it looked like there would not be sufficient income to pay any dividend.

### **The Governor's Long-Term Fiscal Program**

**17. Many Democrats have been adamant about seeing a whole fiscal plan. Do you think your proposal to use a portion of the Permanent Fund income for public services without also proposing an income or sales tax fulfills what the Democrats have been asking for in regard to a long-term, comprehensive fiscal plan?**

The Murkowski Administration's fiscal plan is based on a lot more than how a portion of the Permanent Fund income is used. It's about controlling state spending and getting a smaller, smarter government. It's about developing Alaska's natural resources to create jobs for Alaskans, build healthy local communities, and return revenues to the state treasury that will support a great quality of life. It's about creating a fiscal environment in which the private sector will want to invest in Alaska. In short, it is the five point plan that the Governor announced in his State of the State address.

The Permanent Fund started with an initial investment of \$54 million. Today, it has grown to **\$27 billion**. It often has brought in more money than in annual income than oil revenue. The Fund's annual income goes to dividends and the earnings reserve. The Governor asked in his State of the State address that Alaskans consider how big the Fund should grow as they watch essential public services, like education, decline. No other state has anything like the Permanent Fund. The Governor has said that to immediately jump to broad-based taxes without first looking to what role a portion of the Permanent Fund's income could play is narrow and shortsighted.

### **Government Spending**

**18. Has government excess been cut enough to justify reducing the Permanent Fund dividend by taking a portion of the Permanent Fund income for government?**

One of the hardest questions on which to get Alaskans to agree is: When has government been cut enough? The Murkowski administration's goal is not to simply "cut government spending," it's to ensure that government departments are obtaining the expected results and that the money being invested in public services is spent wisely and efficiently. The Missions and Measures program implemented by the legislature is ongoing. Unquestionably, there are many good ideas for doing the job better and for saving money. The Governor has said that state employees are leading this effort by coming up with excellent recommendations and ideas. But the size of the state's revenue deficit is too great at the present time to cut our way out. Additional revenues are needed now, and in time those revenues will come from new resource development. Whether the size of government grows in future years depends on the needs of Alaskans for public services, population growth and external factors.

**19. Why not reduce government services and employees instead of using a portion of the Permanent Fund income for government?**

The Governor is calling the Conference of Alaskans to look at precisely these issues. Are Alaskans really prepared for the kind of state that would result from significantly reduced government services?

At present, nearly 70% of the general fund state budget goes to fund K-12, the University, and health and social service programs. The other 30% is for public services such as Troopers, highway and airport maintenance, prisons, the court system, environmental protection, criminal prosecutors, homeland security, and management of fish and game. It may be extremely tough to get agreement on where to cut 25% (about \$565 million) in services.

**20. Is the Governor's proposal actually an effort to use a portion of Permanent Fund income to grow or at a minimum maintain the current size of government?**

Governor Murkowski has said that his administration will continue to reduce spending while maintaining programs that are a priority to all Alaskans. As he said in the State of the State speech he would support a Constitutional Spending Limit to ensure Alaskans that the availability of Permanent Fund income for public services does not result in a spending spree. The reality is that 50% of the projected Permanent Fund payout almost fills the gap between recurring revenues and expenses and thus there would be no money for a spending spree.



## **Campaign Promises**

### **21. Didn't the Governor promise during the 2002 campaign not to use Permanent Fund income?**

The Governor was accused by his opponent during the 2002 campaign of having a plan to use Permanent Fund income to fund state government. He had no such plan at the time and said so. He promised that any use of the Permanent Fund earnings would be preceded by a vote of the people. The Governor will forward to the Legislature the results of the answers provided by the Conference to the Governor's four questions so that the Legislature can place the issue on the November 2004 ballot for a vote of the people.

### **22. During the last campaign Governor Murkowski promised no new taxes and no use of the Permanent Fund dividend without a vote of the people, yet he supported a handful of new taxes and now is announcing he might support using a portion of the Permanent Fund income for government. Is he reneging on his campaign promises?**

During the campaign the Governor said he would not support an income tax. The taxes he has supported to-date are focused on the principle that those who benefit from a service should help pay for it. The Governor has also been very clear that Alaskans would have the opportunity to vote to approve any change in the dividend program. What he is proposing is exactly in line with what he said.

### **23. As Governor Hammond has said, using a portion of the Permanent Fund income for government instead of the dividend will in fact be a "tax" which will fall only on Alaskans. When the Governor ran he talked about having tourists and out of state workers pay their fair share for government first. Has he changed his position?**

Governor Murkowski has not changed his position. He believes non-Alaskans need to pay their fair share. For example, the administration proposed a transient accommodations tax, which would apply to travelers and other tourists. The Governor supported a seasonal sales tax last session for the same reason. Taxing out of state workers is a more difficult proposition because the federal Constitution does not permit it, but the administration is looking for ways to accomplish it other than an income tax, of which Alaska residents would pay about 93%.

### **24. Is the Conference a way to hide behind a group to make a decision the Governor should make?**

The idea of the Conference is that many heads are better than one. The Governor is relying on the Conference to examine the many options and identify the best one for Alaska. Alaskans need the assurance that any proposal for use of a portion of the Permanent Fund income is as objective as possible. The Conference group has agreed to put politics aside in its deliberations.

**25. Why didn't the Governor propose this Conference during the campaign?**

The Governor has said that there are many issues that come up when governing that do not always come up during a campaign.

**26. Would the Governor support including the dividend in the Constitution if that is proposed by the Conference? What about education?**

The question is what role should Permanent Fund income have in maintaining public services. The Governor is looking forward to receiving the Conference recommendations. He does not intend to try to influence the outcome of the Conference on this point by stating his own opinion.

Governor Murkowski's administration has cut spending and will continue to do so. The Governor believes that for the long term fiscal stability of our state the question of using a portion of the income of the Permanent Fund can't be ignored.

## **Resource Development**

**27. When can we expect to see revenues from resource development take the place of using any portion of the Permanent Fund income to pay for government?**

Resource development is the first element of the Governor's five-point plan and remains the key to long term fiscal stability. However, the short term reality is that we will need revenue to maintain essential public services. Using a portion of the Permanent fund income to maintain public services could be one way to bridge our finances from where the state is today to the point when new revenues from resource development start to come in.

## **Different from Other Attempts**

**28. What is the difference between the Conference that you are asking for and the number of other Conferences on the Permanent Fund and Economic Policy that Steve Cowper, Tony Knowles and other governors have tried?**

Narrowness of the agenda and certainty of schedule. What Governor Murkowski has proposed is not an open-ended government commission. Moreover, he is looking for a result on a single issue. Linking this issue to taxes as various legislators have tried to do since 1992 has not worked.

The work of the Conference will be done in a short time period which will help the public have more focused information on the issues.

The recommendation of this Conference will go to a Special Session of the Legislature for action. This also will focus public attention on this issue.

**29. Alaskan voters soundly defeated the proposal to use a portion of the Permanent Fund for government in 1999. What will change their minds now?**

One of the differences from 1999 is that Governor Murkowski's administration has made real budget cuts, something the state hasn't seen since the mid-1980s when oil prices plummeted and the state had no other choice. Voters in 1999 believed that more cuts could be made without significantly impacting essential public services and the voters at that time were correct. Essential public services will be reduced in the FY 2006 budget without significant new revenues.

In addition, Alaska doesn't have the same amount in the CBR savings account as there was in 1999. The day in which that account will be depleted is closer—i.e., we're closer to the edge of the fiscal cliff.

It's also helpful to recognize the many reasons why Alaskans said they voted no in 1999:

- Some were concerned that government would go on a spending spree if it got access to Permanent Fund income. This can be addressed by the Constitutional Spending Limit on which the Governor will work with the Legislature to also have on the November ballot.
- Some said it was just an advisory vote, so it didn't matter. This time around the proposal will be a binding Constitutional amendment.
- Some said the Legislature had the power to spend Permanent Fund income anyway. True, but the problem is that the Legislature doesn't believe it has "political permission" to do so. Approval of a Constitution amendment by Alaskans will give the Legislature that permission.

--Some Alaskans didn't believe that under the current formula the dividend could ever be in jeopardy. But last year we saw that almost come true, so it could happen under the current earnings approach. The new mechanism will ensure a payout is available every year.

--Some cautioned this was the "camel's nose under the tent" in terms of using a portion of the income. A carefully crafted Constitutional amendment that limits how much Permanent Fund income can be used would make future intentions clear.